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SUBJECT: INTEREST RATES MORE IMPORTANT POLITICALLY THAN
LABOR LAW CHANGES

Classified By: Political Counselor James F. Cole, REASONS 1.4 (b) and (d).

SUMMARY

¶1. (C/NF) Interest rates will be a key political issue for the 2007 federal elections, according to a number of observers Embassy poloffs met with during a visit to Sydney. The consensus was that changes to the industrial relations laws will be at most a contributing factor. So far, the impact of the labor law changes on workers has been minimal given the strong economy and low unemployment. According to these observers, most Australian voters, thinking about their finances when they vote next year, will likely support the Coalition but they will not want the Government to continue controlling the Senate, as it does now. New South Wales (NSW) Labor Party Secretary Mark Arbib (Protect) noted that left-of-center parties have stressed a "national vision" for the future but security concerns have helped right-wing governments since 9/11.

INTEREST RATES BIGGER ELECTION ISSUE THAN INDUSTRIAL RELATIONS REFORM

¶2. (C/NF) During a trip to Sydney September 28-29, Embassy poloffs met with Garry Brack (Protect), Chief Executive of Employers First, Mark Lennon (Protect), Assistant Secretary of the Labor Council of New South Wales, Dr. John Buchanan (Protect), Director of the Australian Centre for Industrial Relations Research and Training at the University of Sydney, and Mark Arbib (Protect), General Secretary of the New South Wales Labor Party.

¶3. (C/NF) Mark Lennon, deputy director for the labor-union umbrella organization in NSW, said that while the changes to the industrial relations laws were a key issue for organized labor, the voters would be focused on the pocketbook when they voted next year -- and the key issue for them was interest rates. Given the large mortgages needed to buy the expensive real estate in Sydney, and the fact that most loans had adjustable interest rates, a rise in rates affected most voters' disposable income. Many voters were chary of Coalition Senate control, Lennon also maintained. With a healthy economy and stable interest rates they would keep the Government in power in the House but were less likely to vote for Coalition senators.

POST-9/11 SECURITY CONCERNS HAVE HELPED RIGHT WING PARTIES

¶4. (C/NF) Arbib echoed Lennon's sentiments on interest rates,

noting that during the 2004 election campaign, PM Howard's standing in the polls always increased when he focused on interest rates, and conversely, decreased when he changed the subject. Not only does the strong economy help the Coalition, Arbib said, but post-9/11 security concerns were another factor. Left-of-center governments need to articulate a vision for the future, and unless Australia invests in its future it will only be a "quarry for the Chinese and a tourist destination for the Japanese." However, Arbib continued, the immediate issues for every voter are the economy and security, and the Howard Government currently holds the advantage on both. It will be a tough struggle for the Labor Party (ALP) to win the federal elections in 2007, Arbib admitted, but the ALP has a stronger team of young leaders coming up through the political system and he was confident for the future.

15. (C/NF) Arbib said Kim Beazley, because he was the opposite of the volatile Mark Latham, was the right man to lead the ALP at the present time. Arbib noted that the March 2007 state elections in NSW would be tough for the ALP. They had been in power for 12 years and were having some problems but the Opposition leader was inexperienced and not yet ready to challenge for the leadership. Coalition control of the Federal Government and ALP control of the states and territories was accentuated by the fact that the best Coalition political operatives gravitated toward Canberra, where they could get better jobs working at the national level. The best jobs for the good ALP politicians and staffers were in the state governments, which the ALP run.

16. (BIO NOTE: Young, dynamic and friendly, Arbib is reputed to be the leader of the right wing of the ALP (traditionally centered in NSW) and the one who chose Beazley to be the ALP

CANBERRA 00001574 002 OF 002

leader after Latham. He also told us that he, unlike Beazley, supported Iraq as well as the war on terrorism in general.)

WITH A STRONG ECONOMY, WAGES INCREASE DESPITE NEW LABOR LAWS

17. (C/NF) Employer representative Brack explained that under the old awards system of industrial relations, an "award" issued by the Australian Industrial Relations Commission in response to a labor dispute increased compensation and benefits for a particular industry. That award would then provide the benchmark that would increase wages and benefits in other industries throughout the economy. This made it impossible for businesses to control labor costs and compete internationally, Brack said.

18. (C/NF) While the reforms instituted by the Howard Government in 1996 and amended in 2005 have provided more job-market flexibility and ended the steady increases in wages and benefits, the reforms have had little impact, Brack pointed out. With a growing economy and essentially full employment, the tight job market is continuing to push salaries higher. Employers are most concerned with keeping their skilled employees. In addition, Brack noted, many employees are covered by awards or state compensation laws that pre-dated the 2005 workplace law and have not yet expired.

19. (C/NF) Dr. Buchanan, whose research institute has done a number of studies on the new workplace relations laws, said that strikes were much harder to mount under the new laws and the unions had lost bargaining power. Skilled employees would be less affected by the changes than the 20 percent of workers at the bottom, who would lose many of their protections. Under the old awards system, this 20 percent was paid relatively well, forcing employers to use fewer workers more efficiently. Buchanan noted that New Zealand and the states of Victoria and Western Australia had undertaken similar reforms that dismantled industry-wide guarantees in favor of individual agreements and a few

statutory minimum conditions. The result has been the growth of low-paying jobs and greater wage inequality, especially for women, young people and low-skilled employees.

¶10. (C/NF) The new industrial relations laws -- designed to give employers the ability to hire a more flexible workforce to compete internationally -- may be partially responsible for the fact that unemployment is at the lowest level in 30 years (4.9 percent). As Buchanan noted, under the old system employers had to pay their less-skilled workers relatively well, so they hired fewer. His fear -- and perhaps a fear of many Australians -- is that employers may now be able to create a class of so-called Walmart employees in Australia.

COMMENT

¶11. (C/NF) The economy and security appear to remain the issues over which the elections will be fought next year. The observers we spoke with stressed that PM Howard is a master politician who will lay claim to the country's current prosperity and keep interest rates lower than a Labor government would be able to do. He will also be a formidable campaigner in the fight to convince the electorate which party can best deliver on national security.

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